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# Circular E

# Employer's

# Tax Guide

## New Income Tax Withholding Rates and Tables

This revision of Circular E contains the revised rates and tables prescribed by the Department of the Treasury in accordance with the Tax Reduction Act of 1975 for withholding income tax from wages paid after April 30, 1975 and before January 1, 1976. The rates and tables take into account the new personal exemption credit, the increase in the standard deduction, and the new earned income credit.

A new Form W-4 (Revised April 1975), Employee's Withholding Allowance Certificate, is on pages 49 and 50. This new form with the revised table should be used by employees to determine the correct number of withholding allowances for itemized deductions that they are entitled to claim under the new law. Copies of Form W-4 are available at Internal Revenue District offices.

Please display the poster on page 51 of this circular on your bulletin board so that your employees will be aware of how the new law affects their tax withholding.

## Social Security Tax Base Increases

The maximum amount of wages subject to social security (FICA) taxes has been increased to \$14,100 for wages paid in 1975.

## Magnetic Tape Reporting

Employers required to file wage and information documents are encouraged to do so on magnetic tape rather than on paper forms. See section 23, on page 10 for details.

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current or preceding calendar year (a) paid wages of \$1,500 or more in any calendar quarter, or (b) had one or more employees at any time in each of 20 calendar weeks (not necessarily consecutive).

### 3. Employer Identification Number

Show your employer identification number on all forms, attachments, and correspondence you send to the Internal Revenue Service and the Social Security Administration.

You should have only one identification number. If you have more than one and have not been told which one to use, notify the Internal Revenue Service Center where you file your return. Give the numbers you have, the name and address to which each number was assigned, and the address of your principal place of business. The Service will tell you which number to use.

If you acquired another employer's business, do not use the number assigned to that employer.

If you have not applied for an identification number, you should do so on Form SS-4, available from any Internal Revenue Service office or the Social Security Administration.

Employer identification numbers are also used to identify the tax accounts of various organizations and entities having no employees.

### 4. Who Are Employees

**Common Law Employees.**—Anyone performing services subject to the will and control of an employer both as to what shall be done and how it shall be done, is an employee for purposes of these taxes. This applies even if the employer permits the employee considerable discretion and freedom of action, if the employer has the legal right to control both the method and the result of the services.

Though not always applicable, some characteristics of an "employee" are that the employer has the right to dis-

charge the employee and furnishes the tools and a place to work.

In general, individuals in business for themselves are not employees. For example, physicians, lawyers, dentists, veterinarians, construction contractors, public stenographers, and others who follow an independent trade, business, or profession in which they offer their services to the public are not employees.

If an employer-employee relationship exists, describing the relationship as anything other than that of employer and employee is immaterial. It does not matter that the employee is designated as a partner, coadventurer, agent, or independent contractor; nor does it matter how the payments are measured, or how they are paid, or what they are called; nor whether the individual is employed full or part time.

There is no distinction between classes of employees. Superintendents, managers, and other supervisory personnel are employees. Generally, an officer of a corporation is an employee, but a director, in the capacity as such, is not. An officer who performs no services, or only minor ones, and who neither receives nor is entitled to receive remuneration is not considered an employee.

Whether an employer-employee relationship exists under the usual common law rules will be determined, when in doubt, by an examination of the facts in each case.

If you wish a ruling on whether a worker is an employee, file Form SS-8.

**Statutory Employees.**—For Federal unemployment tax, the term "employee" also means individuals described in paragraphs (a) and (d) below, who perform services for remuneration under the conditions in the last paragraph of this section.

For social security taxes, the term "employee" also means any of the following who perform services for remuneration under the conditions in the last paragraph of this section—

(a) an agent-driver or commission-driver who distributes meat, vegetable, fruit, or bakery products, beverages (other than milk), or laundry or dry-cleaning services, for the principal;

(b) a full-time life insurance salesman;

(c) a homemaker working according to specifications of the person for whom the services are performed, on materials or goods furnished by and required to be returned to that person or a designate; or

(d) a traveling or city salesman, other than an agent-driver or commission-driver engaged full time soliciting and transmitting to the principal (except for side-line sales on behalf of some other person) orders from wholesalers, retailers, contractors, operators of hotels, restaurants, or other similar establishments, for merchandise for resale or supplies for use in their business operations.

An individual in any of these categories is an employee for social security tax purposes, and if in category (a) or (d), is an employee for Federal unemployment tax purposes if the service contract contemplates personal performance of substantially all the services. But if the individual has a substantial investment in facilities used to perform the services (except facilities for transportation), or if the services are a single transaction not part of a continuing relationship with the person for whom they are performed, the individual is not an employee.

### 5. Employee's Social Security Number

Record the name and number of each employee exactly as they appear on the social security card.

If a new employee does not have a social security card, have the employee obtain one at any Social Security Administration office.

#### Federal Government Employers.

Federal agencies should refer to Chapter 3000, Part III, of the Treasury Fiscal Requirements Manual. This chapter prescribes procedures for Federal agencies to use in accounting for withheld Federal income taxes and social security taxes, all of which are collected in the U.S. Treasury at the time actually withheld.

#### State and Local Government Employers.

Generally, only the information in this circular on Federal income tax withholding is applicable to State and local government employment. State and local government employers should not include social security contributions with their deposits of withheld income taxes. They should report withheld income taxes to Internal Revenue Service on Form 941E. Information on reporting and acquiring social security coverage may be obtained from the appropriate State official.

#### Other Social Security Tax Information.

If you are an agricultural employer, refer to Circular A. Employers of household employees should refer to section 9 of this circular. For self-employment information, refer to the Form 1040 instructions and Schedule SE (Form 1040). You may obtain the circulars and forms from any Internal Revenue Service office.

For your files**Revenue Procedure 75-20****Magnetic tape reporting for wage and information documents.****Department of the Treasury  
Internal Revenue Service**

Reprinted from Internal Revenue Bulletin No. 19, dated May 12, 1975

26 CFR 601.602: Forms and instructions. (Also Part I, Sections 6011, 6041, 6042, 6043, 6047, 6049, 6051; 31.6011(a)-7, 1.6041-1, 1.6041-4, 1.6041-5, 1.6041-7, 1.6042-2, 1.6042-3, 1.6043-2, 1.6047-1, 301.6047-1, 1.6049-1, 31.6051-1.)

Requirements and conditions are set forth under which information reportable on Forms W-2, W-2P, 1087-DIV, 1087-INT, 1087-MED, 1087-MISC, 1087-OID, 1099-DIV, 1099-INT, 1099-MED, 1099-MISC, 1099-OID, 1099-PATR, 1099L, 1099R, and the Agriculture Subsidy Payment Report may be submitted on magnetic tape instead of on paper documents; Revenue Procedures 73-13, 74-46 superseded.

**Rev. Proc. 75-20****Part A—General****SECTION 1. PURPOSE.**

.01 The purpose of this Revenue Procedure is to state the requirements and conditions under which payers, employees and nominees (hereinafter collectively referred to as payers) and agents thereof (hereinafter referred to as transmitters) can file annual information returns on magnetic tape in-

stead of paper documents. The paper documents affected are:

(a) Form W-2, Wage and Tax Statement

(b) Form W-2P, Statement for Recipients of Annuities, Pensions or Retired Pay

(c) Form 1099R, Statement for Recipients of Lump-Sum Distributions from Profit-Sharing and Retirement Plans

(d) Form 1099-DIV, Statement for Recipients of Dividends and Distributions

(e) Form 1099-INT, Statement for Recipients of Interest Income

(f) Form 1099-MISC, Statement for Recipients of Miscellaneous Income

(g) Form 1099-MED, Statement for Recipients of Medical and Health Care Payments

(h) Form 1099-OID, Statement for Recipients of Original Issue Discount

(i) Form 1099-PATR, Statement for Recipients (Patrons) of Taxable Distributions Received From Cooperatives

(j) Form 1099L, U.S. Information Return for Distributions in Liquidation During Calendar Year

(k) Form 1087-DIV, Statement for Recipients of Dividends and Distributions

(l) Form 1087-INT, Statement for Recipients of Interest Income

(m) Form 1087-MISC, Statement for Recipients of Miscellaneous Income

(n) Form 1087-MED, Statement for Recipients of Medical and Health Care Payments

(o) Form 1087-OID, Statement for Recipients of Original Issue Discount

(p) Agriculture Subsidy Payment Report

.02 This Procedure supersedes Revenue Procedure 73-13, 1973-1 C.B. 776, and Revenue Procedure 74-46, 1974-45 I.R.B. 21.

.03 Revisions to Forms 1099-INT, 1087-INT and W-2 have necessitated certain changes in the magnetic tape specifications for reporting wage and statement amounts.

.04 The 1099-DIV is also applicable to those previously filing Form 1099M, U.S. Information Return, Regulated Investment Company Distributions. Thus, regulated investment companies can file required statements

identifying number is the employer identification number (00-0000000). For individuals, it is the social security number (000-00-0000). When entering either number on magnetic tape records, please *do not* include the hyphens.

See SEC. 10. below, Guidelines for Determining Proper Taxpayer Identifying Number to be Furnished to the Service.

.03 The Service must be able to identify the surname associated with the taxpayer identifying number furnished on a statement. When statements are received in the form of paper documents, this is accomplished through a manual editing process. However, manual editing is precluded when statements are received on magnetic tape. Hence, the specifications in PART B of this procedure include a data field in the payee records called "Name Control," in which the first four alphabetic characters of the payee surname are to be entered by payers. In addition, a blank must precede the identifying surname in the first name line of all Payee "B" Records unless the surname begins in the first position of the field.

.04 If payers are unable to provide the first four characters of the payee surname, the specifications permit the submission of statements on magnetic tape with the Name Control Field left blank. However, compliance with the following will facilitate the Service computer programs required to generate the Name Control.

(a) The surname of the payee, whose taxpayer identifying number (SSN or EIN) is shown in the Payee "B" Record, *must be the only name in the first name line.*

(b) A blank *must* precede the surname *unless* the surname begins in the first position of the field.

(c) In the case of multiple *payees*, only the surname of the payee, whose taxpayer identifying number (SSN or EIN) is shown in the Payee "B" Record, *must be present in the first name line.* The surnames of the other payees may be entered in the second name line.

.05 Provision is also made in these specifications for data entries not required for Federal tax purposes, but

which may be required by state or local governments. This should minimize the Payer/Transmitter's programming burden should payers desire to report on tape to state or local, as well as to the Federal Government.

#### SEC. 9. ADDITIONAL INFORMATION

Requests for additional copies of this Revenue Procedure, or requests for additional information on tape reporting, should be addressed to the attention of the Magnetic Tape Coordinator of one of the following:

- (a) Internal Revenue Service  
Andover Service Center  
Post Office Box 311  
Andover, Massachusetts 01810
- (b) Internal Revenue Service  
Brookhaven Service Center  
Post Office Box 400  
Holtsville, New York 11742
- (c) Internal Revenue Service  
Philadelphia Service Center  
Post Office Box 245  
Cornwells Heights, Pennsylvania 19020
- (d) Internal Revenue Service  
Atlanta Service Center  
Post Office Box 47421  
Doraville, Georgia 30340
- (e) Internal Revenue Service  
Memphis Service Center  
Airport Mail Facility  
Memphis, Tennessee 38130
- (f) Internal Revenue Service  
Cincinnati Service Center  
Post Office Box 267  
Covington, Kentucky 41012
- (g) Internal Revenue Service  
Kansas City Service Center  
Post Office Box 5321  
Kansas City, Missouri 64131
- (h) Internal Revenue Service  
Austin Service Center  
Post Office Box 934  
Austin, Texas 78767

- (i) Internal Revenue Service  
Ogden Service Center  
Post Office Box 9948  
Ogden, Utah 84409
- (j) Internal Revenue Service  
Fresno Service Center  
Post Office Box 12866  
Fresno, California 93779

#### SEC. 10. GUIDELINES FOR DETERMINING PROPER TAXPAYER IDENTIFYING NUMBER TO BE FURNISHED TO THE SERVICE

.01 Under section 6109 of the Internal Revenue Code, recipients of dividends, interest, or other payments are required to furnish taxpayer identifying numbers to payers who must report such payments to the Internal Revenue Service. The number *must* be furnished to the payer whether or not the payee is required to file a tax return or is covered by social security.

.02 The taxpayer identifying number to be furnished the Service depends primarily upon the manner in which the account is maintained or set up on the records of the payer. The number to be provided *must* be that of the owner of record. If the account is recorded in more than one name, furnish the taxpayer identifying number and name of one of the holders of record. The number provided *must be* associated with the name of the holder provided in first line of the payee of the Payee "B" Record of PART B of this procedure.

Sole proprietors who are payers should show their employer identification numbers in the Payer/Transmitter "A" Record. However, payers should use the social security number of a sole proprietor in the Payee "B" Record.

The table below will help you determine the number to be furnished to the Service.

For this type of account:	In Tape Positions 12-20 of the Payee "B" Record, enter the <u>Social Security Number</u> of —	In the Payee 1st Name Line of the Payee "B" Record, enter the Name of —
1. An individual's account	The individual	The individual
2. Husband and wife (joint account)	The husband	The husband
3. Adult and minor (joint account)	The adult	The adult

## Part "B"—Magnetic Tape Specifications

## SEC. 1. GENERAL

.01 These specifications prescribe the required format and content of the records to be included in the file, but not the methods or equipment to be used in their preparation. Usually, the Service will be able to process, without translation, any compatible tape file. To be compatible, a tape file must meet any one set of the following:

(a) 7 channel binary coded decimal (BCD) with  
(1) Either Even or Odd Parity and  
(2) Either a Density of 556 or 800 BPI

(b) 9 channel EBCDIC (Extended Binary Coded Decimal Interchange Code) with

(1) Odd Parity and  
(2) Either a Density of 800 or 1600 BPI

(c) 9 channel ASCII (American Standard Coded Information Interchange) with

(1) Odd Parity and  
(2) Either a Density of 800 or 1600 BPI

In addition, all compatible tape files must have the following characteristics:

(a) Type of tape— $\frac{1}{2}$  inch Mylar base, oxide coated and;

(b) Interrecord Gap— $\frac{3}{4}$  inch

.02 The Service will attempt to find conversion facilities for any other characteristics listed on the Magnetic Tape Application Form that differ from the above specifications.

.03 An acceptable tape file for each payer will contain the following:

(a) Single Reel:  
(1) A Payer/Transmitter "A" Record,  
(2) A series of Payee "B" Records,  
(3) An End of Payer "C" Record, and  
(4) An End of Transmission "F" Record.

(b) Multiple Reels:  
(1) A Payer/Transmitter "A" Record,  
(2) A series of Payee "B" Records,  
(3) An End of Payer "C" Record,  
(4) An End of Reel "D" Record for each reel (except the last reel)

For this type of account:	In Tape Positions 12-20 of the Payee "B" Record, enter the Social Security Number of —	In the Payee 1st Name Line of the Payee "B" Record, enter the Name of —
4. Two or more individuals (joint account)	Any one of the individuals	The individual whose SSN is entered
5. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person	The ward, minor, or incompetent person
6. Custodian account of a minor (Uniform Gifts to Minor Acts)	The minor	The minor
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee	The grantor-trustee
b. So-called trust account that is not a legal or valid trust under State law	The real owner	The real owner
8. Sole Proprietorship Account	The proprietor	The proprietor

For this type of account:	In Tape Positions 12-20 of the Payee "B" Record, enter the Employer Identification Number —	In the Payee 1st Name Line of the Payee "B" Record, enter the Name of —
1. A valid trust, estate,* or pension trust	Legal entity (Do not furnish the identifying number of the administrator, executor, or trustee unless the legal entity itself is not designated in the account title)	The legal trust estate,* or pension trust
2. Corporate account	The corporation	The corporation
3. Religious, charitable, or educational organization account	The organization	The organization
4. Partnership account held in the name of the business	The partnership	The partnership
5. Association, club, or other tax exempt organization	The organization	The organization
6. A broker or registered Nominee	The broker or nominee	The broker or nominee

\*Note: If this type of account is related to the filing of Form 706, United States Estate Tax Return, enter a Social Security Number in tape positions 12-20 of the Payee "B" Record and the Decedent's name in the Payee 1st Name Line of the Payee "B" Record.  
If this type of account is related to the filing of a Form 1041, U.S. Fiduciary Income Tax Return, enter an Employer Identification Number in tape positions 12-20 of the Payee "B" Record and the legal trust or estate in the Payee 1st Name Line of the Payee "B" Record.

under Option 1 *only*, and  
(5) An End of Transmission "F"  
Record.

NOTE: See Sections 9 and 10  
(Tape Layouts) and Section 11 (Rec-  
ord Layout).

All records, including headers and  
trailers, must be written at the same  
density.

## SEC. 2. CONVENTIONS AND DEFINI- TIONS.

.01 Certain conventions may be re-  
quired by the programming system or  
equipment used by the payer with re-  
spect to header and trailer labels, re-  
cord marks and tape marks. Their use  
must adhere to the following:

- |   |   |
|---|---|
| Header Label -----                                  | 1. First four characters must be 1HDR or HDR1.<br>2. Can only be the first record on a reel.<br>3. Must consist of a maximum of 80 characters.  |
| Trailer Label -----<br>(Required under<br>Option 2) | 1. First four characters must be 1EOR, 1EOF, EOR1<br>or EOF1.<br>2. Can only be the last record on a reel.<br>3. Must consist of a maximum of 80 characters.  |
| Record Mark -----                                   | 1. Special character used to separate blocked records on<br>tape.<br>2. Can only be at the end of a record or block.<br>3. Use BCD bit configuration 011010 ("A82" bits) in<br>even parity; 111010 ("BA82" bits) in odd parity.   |
| Tape Mark -----                                     | 1. Special character that is written on tape usually to<br>signify the physical end of the recording on tape.<br>2. For compatibility with IRS equipment, use BCD bit<br>configuration 001111 ("8421" bits) in even parity.<br>3. If header and trailer labels are used (required under<br>Option 2), the tape mark may follow the header<br>label and may precede and/or follow the trailer<br>label.<br>4. If trailer labels are not used with Option 1, the tape<br>mark can only follow on 'End of Reel "D" Record'<br>or 'End of Transmission "F" Record.' |

## .02 Definitions Element

## Description

- |                       |  |
|-----------------------|--|
| b -----               | Denotes a blank position. For compatibility with IRS<br>equipment, use BCD bit configuration 010000 ("A"<br>bit only) in even parity, 001101 ("841" bits) in odd<br>parity.  |
| Special Character --- | Any character that is not a numeral, a letter or a blank.  |
| Payer -----           | Person or organization, including paying agent, making<br>payments. The Payer is responsible for the completeness,<br>accuracy and timely submission of magnetic tape files. |
| Transmitter -----     | Person or organization preparing magnetic tape files.<br>May be Payer or agent of Payer.   |
| Payee -----           | Person(s) or Organization(s) receiving payments from<br>Payer.   |
| Coding Range -----    | Shows the lowest and highest acceptable codes. For ex-<br>ample: Coding Range 1-4 indicates that codes 1, 2,<br>3 or 4 are acceptable in the tape position.                  |
| Record -----          | A group of related fields of information treated as a<br>unit.   |
| Blocked Records ----  | Two or more records grouped together between inter-<br>record gaps.  |
| Unblocked Records --  | A single record which is written between interrecord<br>gaps.  |

## .02 Definitions

Element	Description
File	For the purposes of this Procedure, a file consists of all tape records submitted by a Payer or Transmitter for a specific type of information document. For example: Payers reporting data for Form W-2, Form 1099-DIV and Form 1099-INT would submit three files. One file would contain W-2 data; one file, 1099-DIV data; one file, 1099-INT data.
Reel	A spool of magnetic tape.
Taxpayer Identifying Number	May be either an EIN or SSN.
SSN	Social Security Number.
EIN	<u>Employer Identification Number which has been assigned by IRS to the employing or reporting entity.</u>

.03 Since the Service is not restricting magnetic tape reporting to payers or transmitters with specific types of equipment, or prescribing the methods used to prepare the tape files, the Payer/Transmitter ("A" Record), End of Payer ("C" Record), End of Reel ("D" Record), and End of Transmission ("F" Record), perform the functions normally assigned to header and trailer labels, and related conventions. The Payer/Transmitter Record serves the purpose of a Header Label, the End of Payer Record indicates that all Payee Records for a Payer have been written on the reel, and the End of Transmission Record indicates that the end of reporting has been reached. In addition to the functions stated above, the End of Reel and End of Payer Records are used to balance each reel or each payer's records on a reel.

## SEC. 3. RECORD LENGTH

.01 The tape records prescribed in the specifications may be blocked or unblocked, subject to the following:

(a) A block may not exceed 4,000 tape positions.

(b) If the use of blocked records would result in a short block, all remaining positions of the block may be filled with 9's or a short block may be written.

(c) All records may be blocked, except Header and Trailer Labels.

.02 Provision has been made for special data entries filed in the Payee "B" Record. These entries are optional. If the field is utilized, it must be present on all Payee "B" Records of a Payer. The field is intended to serve one or both of these purposes:

(a) Carry information required by state or local governments in connection with income reporting on magnetic tape to those jurisdictions when authorized.

(b) Facilitate making all records the same length.

## SEC. 4. PAYER/TRANSMITTER "A" RECORD.

Identifies the payer and transmitter of the tape file and provides parameters for the succeeding Payee "B" Records. The Service's computer programs rely on the absolute relationship between the parameters in the Payer/Transmitter "A" Record and the data fields in the Payee "B" Records to which they apply.

The number of Payer/Transmitter "A" Records appearing on one tape reel will depend on the number of payers and types of statements being reported. A transmitter may include Payee "B" Records for more than one payer on a tape reel; however,

each separate payer's Payee "B" Records must be preceded by a Payer/Transmitter "A" Record. A single tape reel may also contain different types of statements (e.g., 1099-INT and W-2 statements) but the statements may not be intermingled. A separate Payer/Transmitter "A" Record is required for each type of statement being reported on the tape reel. The following are two optional ways the Payer/Transmitter "A" Record may be used:

Option 1: When multiple reels are required for a single file, the correct Payer/Transmitter "A" Record must be repeated as the first record (second record if Header Labels are used) on every succeeding reel in the file to which it applies, and the reel sequence number must be incremented by 1 on each tape reel after the first reel.

Option 2: A Header Label *must be present* as the first record of every reel. The Payer/Transmitter "A" Record must appear as the *second record of the first reel only* and will not be repeated as the second record on subsequent reels. Enter an "X" in position 5 of the Payer/Transmitter "A" Record to indicate that the reel sequence number is in the Header Label. Enter the high order position of the 3 position reel sequence number on the Header Label in positions 3 and 4 of the Payer/Transmitter "A" Record. Additionally, a trailer label must be the last record on each reel.

*Example 1:* If the reel sequence number is in positions 20 through 22 on the Header Label, enter 20 in positions 3 and 4 of the Payer/Transmitter "A" Record and an "X" in position 5.

*Example 2:* If the reel sequence number is in positions 8 through 10 on the Header Label, enter 08 in positions 3 and 4 and an "X" in position 5.

This method is especially adaptable to users of COBOL.

Tape Position	Element Name	Entry or Definition
1	Record Type	Enter "A". Must be first character of each Payer/Transmitter "A" Record.
2	Payment Year	The right most digit of the year which payments are being reported.